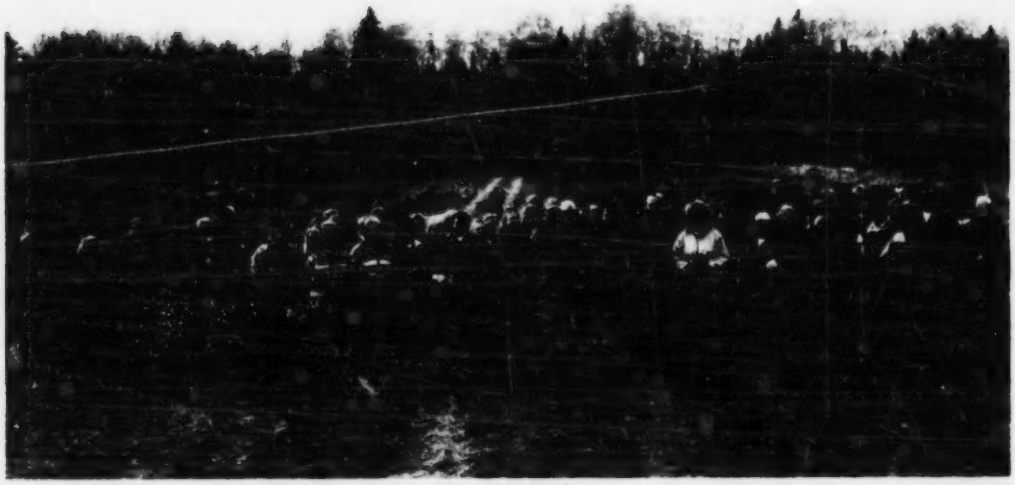
Pineland
Forest Nursery

Annual Report



2000-2001

102-00588/

MINISTER OF CONSERVATION

Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

His Honour the Honourable Peter M. Liba, C.M., O.M.
Lieutenant Governor of Manitoba
235 Legislative Building
Winnipeg, Manitoba
R3C OV8

Your Honour:

I have the privilege of presenting the Pineland Forest Nursery Annual Report for the year ending March 31, 2001.

Sincerely,

Oscar Lathlin
Minister

Manitoba

Deputy Minister of
Conservation

Legislative Building
Winnipeg, Manitoba CANADA
R3C 0V8

Honourable Oscar Lathlin
Minister of Conservation
333 Legislative Building
Winnipeg, Manitoba
R3C OV8

Dear Minister:

I am pleased to submit the sixth Annual Report for Pineland Forest Nursery for the year ending March 31, 2001.

Pineland Forest Nursery has completed a sixth successful year as a Special Operating Agency. Pineland continues to compete successfully for seedling contracts in the market place with 60% of revenue derived from the private sector in Manitoba, Ontario, Saskatchewan, Alberta and the United States.

For the year ending March 31, 2001 Pineland Forest Nursery reports a loss of $47,000. Since Pineland Forest Nursery's designation as a Special Operating Agency, total profit is an impressive $744,300. Pineland Forest Nursery employs local residents for a total annual payroll in excess of $1.6 million.

The Advisory Board is proud to be associated with Pineland Forest Nursery and is confident that the Agency will continue to meet the challenges of the future.

Yours sincerely,

Norman Brandson, Chairperson
Pineland Forest Nursery
Advisory Board

Manitoba 2000

Our Past. Our Future. Our Celebration.
Notre passé. Notre avenir. Notre fête.

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Advisory Board Members

Mr. Norman Brandson Deputy Minister Manitoba Conservation	Chairman
Mr. Ken Holme Owner & Operator K.C.'s Outfitting	Member
Mr. Andre Chaput Director of Finance Secretary Treasurer Division Scolaire Franco/Manitobaine #49	Member
Mr. Doug Hunt Forestry Superintendent Tolko, Manitoba	Member
Mr. Gord Jones Director of Forestry Manitoba Conservation	Member
Ms. Shelly Rzyhak Staff Representative Pineland Forest Nursery	Member
Dr. Merlin Shoesmith Assistant Deputy Minister Manitoba Conservation	Member (ex officio)
Ivan Balenovic Chief Executive Officer Pineland Forest Nursery	Member (ex officio)

Agency Management

Ivan Balenovic	Chief Executive Officer
David Flight	Manager, Shipping, Seed Services, Poplar Program, Contracts
Richard Lepage	Manager, Quality Assurance
Barb North	Manager, Operations, Tree Improvement, Security
Linda Rzyhak	Manager, Administration
Trevor Stanley	Manager, Seedling Production, Marketing & Client Services
David Turchyn	Manager, Maintenance Operations

Pineland
Forest Nursery

March 31, 2001 completes Pineland Forest Nursery's sixth successful year as a Special Operating Agency. During the year Pineland continued its mission of contributing to the success of reforestation programs by supplying superior quality products and services to its clients.

Total revenue for the year is down by 17% and total expenditures are down by 13% from the previous year due to a change in the method of accounting for crops in progress at March 31. In years prior to 1999-2000, unbilled costs related to these crops were recorded as work-in-process and were then expensed in the following year. In 1999-2000, the method of accounting for these crops was changed to recognize revenue on a percentage of completion basis whereby any excess of revenue on a percentage of completion basis over amounts billed is recorded as unbilled revenue. This method more fairly reflects the Nursery's financial results and is more consistent with accounting procedures of other businesses in the same industry. As a result of this change, the revenues and expenses of 1999-2000 are increased relative to 2000-2001. However, this change does not have any relative effect on net income.

Net income was down $166,000 from the same period last year due to reduced seedling contract prices that had been negotiated in early 1999 and impacted revenue in the current year. Price increases have been implemented in more recent negotiations and will have a positive impact next fiscal year.

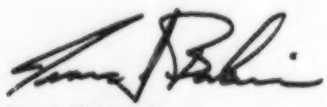
Production for the year was 19.6 million seedlings. The number of seedlings grown is dependent on the size of the seedling. Larger seedlings require more room, but are of higher value maintaining the return per square foot of growing space. Therefore, the actual number of seedlings grown is not an accurate measurement for year over year comparative purposes. The demand for larger trees also diminishes the potential to grow two crops in certain greenhouses since the larger trees can not be lifted or moved in time for sowing the next crop. This will be more apparent in future years with an anticipated decline in revenue and associated expenses, however the impact on net income should be positive.

During the year Pineland employed 136 people for a total of 47.7 staff years. Pineland continues to be a key business in the region and is the largest employer in the area with a payroll in 2000-2001 of $1.67 million.

The primary focus throughout the year was on improvements that impact efficiency and quality. With an increase of 107% in the base rate for natural gas, Pineland implemented an energy reduction strategy which included; the promotion of less energy-intensive products, later seeding dates, growing at lower temperatures, increased utilization of wood heat, insulating structures, staff awareness education and several other actions. The strategy resulted in an impressive 43% reduction in consumption during the last six months of the fiscal year.

During the fiscal year, Pineland invested $213,160 on equipment and infrastructure improvements that will have a direct impact on production efficiency and quality. Production costs per seedling will be reduced while a superior level of quality will be maintained.

Pineland acknowledges the efforts of its Senior Management Team as well as its dedicated, loyal and knowledgeable employees. Pineland Forest Nursery management and staff thank the members of the Advisory Board and the Special Operating Agency Co-ordinator for their guidance and support throughout the year.



Ivan J. Balenovic
Chief Executive Officer

BACKGROUND

In 1953, 128 hectares of land was acquired by Manitoba, approximately 100 kilometres east of Winnipeg on the Trans Canada Highway near Hadashville, for the establishment of Pineland Forest Nursery. The nursery was to service all the requirements of the province of Manitoba's reforestation programs. An expansion of the nursery was accomplished later through the 1987 Canada/Manitoba Forestry Agreement. This included a tree improvement facility, additional greenhouses and a cold storage facility.

On April 1, 1995, Pineland Forest Nursery was designated as a Special Operating Agency (SOA). This has enabled the nursery to expand its client base from one client, the province of Manitoba, to the present client base, which includes other provincial governments and large forestry companies in Alberta, Saskatchewan, Manitoba, Ontario and the United States.

By growing its client base and increasing production since being designated a Special Operating Agency, Pineland Forest Nursery has become a key business in the community and the largest employer in the area with an annual payroll in excess of $1.67 million.

AGENCY STRUCTURE

Pineland Forest Nursery is an organization within the departmental structure, and is accountable to the Assistant Deputy Minister, the Deputy Minister and the Minister of Conservation for operational and financial performance. The Agency operates outside the Consolidated Fund, under the Special Operating Agencies Financing Authority (SOAFA), which holds title to the Agency's assets, provides financing for operations, and is responsible for the Agency's liabilities.

Governance and accountability are supported by the Agency's compliance with its Operating Charter, Transfer Agreement, Management Agreement, General Manual of Administration policies (except where exempt as outlined in the Charter) and by The Special Operating Agencies Financing Authority Act.

The day-to-day operations of the Agency are the responsibility of the Chief Executive Officer who plans and reports to the Agency's Advisory Board. The Advisory Board is chaired by the Deputy Minister of Conservation, with representation from both government and non-government bodies. The Assistant Deputy Minister of Conservation and the Chief Executive Officer are ex officio members of the Board. Other members include two client representatives, two representatives from the private sector knowledgeable in private sector business, and one elected representative from Pineland's staff.

The role of the Advisory Board is to:

- offer advice on the Agency's direction and objectives, performance, business practices, marketing strategies, management and financial reporting requirements;

- review the Agency's Quarterly Financial Reports, Annual Report and Annual Business Plan; and,

- offer support regarding private, public and client sector issues and initiatives.

MANDATE

Pineland Forest Nursery was mandated through a Treasury Board approved Business Plan to:

- provide seed extraction, testing, cleaning, grading, storage and inventory services for all seed used in reforestation practices;
- produce container seedlings for Manitoba reforestation programs and other clients across Canada and the United States;
- provide support services for the provincial tree improvement program;
- maintain a stock identification system for the province, and provide professional information to field staff.

PINELAND FOREST NURSERY'S MISSION

To make a direct and positive contribution to the success of reforestation programs by continually improving and supplying superior quality products and services, to clients in Canada and the United States.

PINELAND FOREST NURSERY'S VISION

For Pineland Forest Nursery to become a financially self-sustaining operation and to be recognized as one of the best seedling production facilities in Canada.

OPERATING PRINCIPLES

Pineland Forest Nursery's operating principles are:

- to run agency operations that are financially self sustained and in accordance with sound business practices;
- to follow the best private and public sector practices and encourage staff involvement in all aspects of the operation;
- to ensure satisfactory levels of confidence by the Agency's stakeholders;
- to introduce new technologies to the Agency's operations on a business-case basis and,
- to develop new products in conjunction with clients and their requirements.

PRODUCTS AND SERVICES

Seedling Production

Seedlings are grown in multi-pot containers inside 65 (7.35 acres) climate controlled greenhouses, where growing conditions are meticulously monitored and optimized. The gutter connected complex and the different types of growing structures on site permits Pineland Forest Nursery to sow seedlings in any month of the year. This flexibility ensures that seedlings meet the precise specifications required for each of our client's planting sites.

Three types of container stock are grown - current, overwinter and double flush. Current crop seedlings are sown in winter to be lifted, graded and packaged in the summer for immediate shipment. Overwintered crop seedlings are sown in spring to be lifted, graded and packaged in the late fall, then stored in one of three large freezers and shipped in the winter for snow cache or in the spring for immediate planting. Double flush crop seedlings are started as a current crop, put through artificial dormancy, grown a second time and packaged as an overwinter crop. The double flush crop will in effect, grow the equivalent of a two year old tree in just one year.

Quality Assurance

To ensure that our customers receive seedlings that are of the highest possible quality, all of the seedlings grown at Pineland are constantly evaluated and monitored. Container seedling lots are sampled and evaluated biweekly for growth progression and soil testing. Once the stock has hardened off seedling lots are also evaluated for bud development. Knowledge of the degree of bud initiation or development within a group of seedlings is very important, as bud formation marks the transition from shoot elongation to shoot dormancy, and is associated with the development of frost hardiness and increased resistance to stresses.

At Pineland, we dissect the buds of sample seedlings and use the timing of bud initiation and needle primordia development as tools for assessing the readiness of crops for overwintering. When the initiation of new primordia ceases, buds are fully developed, marking the point at which large increases in frost hardiness develop. In addition, by counting needle primordia, we can also provide our customers with the potential for growth they can expect from their seedlings in their first growing season.

Frost hardiness monitoring begins six weeks after bud initiation, in a progression of tests in which shoot tips are collected from sample seedlings, frozen at a known temperature, brought back to room temperature and then immersed in distilled water. The electrical conductivity of the water is then measured, to provide an accurate gauge of the amount of electrolytes that have been released into the solution by the seedlings due to cell damage. The less electrolytes released, the hardier the seedlings have become. Seedlings are subjected to freezer tests at -40°C. Only when they are hardy to this level are they considered hardy enough to withstand frozen storage.

All seedlings undergo quality monitoring while stored at Pineland. Seedlings are randomly selected,

potted, and placed in a controlled greenhouse environment for twenty-one days. After the test growth period has ended, the trees are unpotted and assessed for root regeneration and shoot growth. Monitoring stock allows us to ensure that our customers always receive vigorous seedlings that will survive and thrive in their final planting site.

A random sample from each load is taken prior to shipping and out-planted in a control area outdoors, where they are left to grow naturally on their own. A sample of all snow cache seedlings are also returned to Pineland for out-planting. Any problems our clients may experience in the field with a particular shipment can be compared to the planted stock for possible cause determination. At the end of the growing season out-planted trees are assessed for survival and growth, to give a further indication of the quality of the shipment.

Lifting, Grading, Storage and Delivery

While seedlings are being lifted in the packaging building they are graded according to the client's individual specifications which are posted in height and diameter. Graders also make assessments related to appropriate root and stem structure as well as foliage colour. Seedlings that do not meet specifications are discarded.

Current crop seedlings are lifted in the summer, then packaged in boxes and immediately loaded into refrigerated highway trailers, which are maintained at +1°C to +3°C for delivery to the planting site.

Overwinter crop seedlings are lifted in the fall, then packaged in boxes and stored frozen at -3°C for delivery in the winter or spring. In total, Pineland's cold storage facilities can accommodate 20 million seedlings.

To most of our major customers, seedlings are delivered to the planting site by truck in our own refrigerated trailers. In remote planting areas that are only accessible by truck in winter using ice roads, seedlings are delivered and stored on-site in specially constructed snow caches, which keep the seedlings frozen and protected until spring planting.

Offsite Field Consultation

Our responsibility and commitment to producing superior trees does not end when the trees are shipped to the client. The experience and knowledge of Pineland's staff is utilized by our clients and their tree planting contractors as needed in order to maximize reforestation effectiveness.

Pineland's offsite consultation involves meeting with clients and assessing the sites they will be planting to determine what stock types would be suited for their sites. We also review previous planting sites to determine growth progression. If there are problems with any of the plantations we are best able to resolve them by working directly with the client in the field to determine the most likely cause of the problem. In addition to assessing crops and solving problems the field consultations afford us the opportunity to work with the clients in the development of new products. There is significant value in being involved with the clients specific needs first hand in order to determine how best to improve the products and services we provide.

Seed Services

Pineland is the only provider of forestry seed extraction services in the province of Manitoba. In 2000/2001, 3,592 hectolitres of cones were processed which represents an increase of 900% since becoming a Special Operating Agency.

Pineland offers two levels of seed cleaning, aerial (basic) grade and premium (greenhouse) grade. Aerial grade cleaning is almost exclusively jack pine. The seed is cleaned to a minimum of 96% purity and is used for broadcast sowing from an aircraft or direct seeding onto the site. Premium grade processing is required where seed of higher purity (>99%) is needed, generally for greenhouse use. As well, Pineland has the capability to do specialized, small scale cleaning of seed where very small lots (i.e. <1 litre) of cones are processed, such as those for genetic research trials where cone lots from individual trees are required.

Once processed, the seed is stored in large, airtight plastic containers, and can be safely kept in Pineland's cold storage facilities at -3°C for more than ten years (if required) before use. To ensure quality is maintained, seed in cold storage is sampled periodically for purity, moisture content, weight and viability.

Tree Improvement

For many years, Pineland Forest Nursery has provided a service to Manitoba's tree improvement program, including seed extraction, growing family tests, grafting, accelerated growth of grafted stock in our greenhouses, planting and maintenance of clone banks and seed orchards. Pineland Forest Nursery provides growing, monitoring, irrigation and technical consultation services to the provincial Dutch Elm Disease research program.

Poplar Program

In conjunction with an eastern university and an Ontario forestry company, Pineland is undertaking a hybrid poplar research program. Poplar stool beds were established in 1997 to identify hybrid clones that are genetically superior, hardy and demonstrate certain commercially desirable characteristics. Since the stool beds were established, the total number of families growing have been significantly reduced through a culling process that eliminates trees that are considered less superior. Annually, the superior poplar trees are cut into eight-inch lengths for direct planting in locations where they will grow to maturity for future commercial harvesting.

MARKETS

Environmental Analysis

In the 1980's, seedling production was increasing across the country, with a tendency for artificial reforestation and governments paying for the majority of reforestation. In the 1990's, with governments focusing on reducing debt load, seedling production has decreased dramatically. Changes were made to include a focus on natural regeneration methods and a shift from government to

industry being responsible for reforestation. Commitments to ecosystem-based forest management and sustainable forest management certification has elevated the importance of reliable production of high quality seedlings.

Trends in seedling demand have shifted from bareroot seedlings to container grown seedlings. Manitoba and Pineland are no exception to this trend, with the last bareroot seedlings in production having been lifted in October 2000. In hand with the phasing out of bareroot seedling is an increase in the demand for larger container stock types. This has led Pineland to develop even larger stock types along with an increase in size parameters on stock types already developed. The single crop system for many greenhouses was instituted this year where by it produces larger, higher value seedlings using certain cultural factors which reduce risk of frost damage and allows us to reduce operating greenhouses during very cold times of the year.

Pineland's ability to diversify and produce seedlings that are custom designed for specific uses has proven to be a major asset in the new era of reforestation. Seedling quality has been at the forefront in the last several years as a result of direct industry involvement in the reforestation efforts, where seedling performance is considered critical in total reforestation costs.

The major trend in nursery production in Canada is predicted to be high quality seedlings with a high survival factor. Industry and government cannot afford to replant sites where seedlings have died due to poor quality. Thus the "quality" of seedlings will drive Pineland's success and not just the cost.

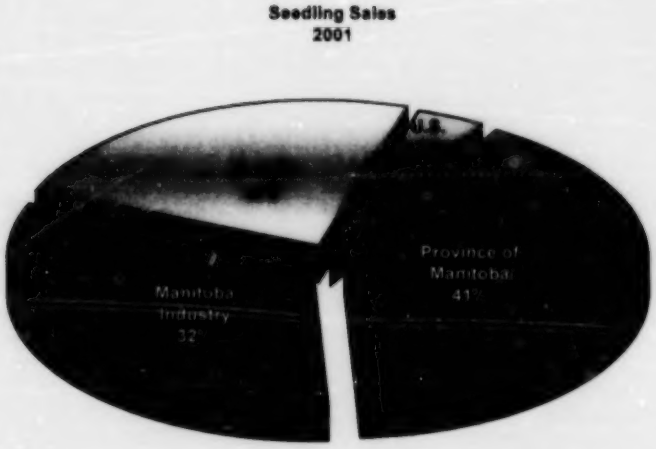
Target Markets

The majority of revenue is generated through the sale of seedlings. Other revenue is generated through the sale of services for seed extraction and cleaning, the delivery of seedlings, and other silvicultural related services.

Clients expect a high quality product for a reasonable price. As the cost for reforestation increases, the demand for seedlings with distinct quality characteristics has become more important for successful reforestation. Seedlings will have to be grown to match specific sites. This is to Pineland's advantage as the expertise in growing high quality site specific seedlings is available at Pineland. The focus of Pineland's clients will be toward quality seedlings at competitive prices, rather than marginal crops at very low prices.

Presently the total annual Canadian market demand is estimated to be 750 million seedlings with the demand in Pineland's identified geographic target area at about 150 million seedlings. Pineland Forest Nursery presently supplies about 15 percent of its target markets.

Usual clients include, forest industry companies in Alberta, Saskatchewan, (no sales this year) Manitoba, Ontario and the United States as well as provincial governments and the federal government. On a smaller scale, cottage associations, woodlot owners, Christmas tree growers, utility companies, mining companies and soil conservation authorities are clients either directly or indirectly.



Competitive Analysis

The ability to produce some forty different stock types of containerized seedlings is one of Pineland's most important marketing strategies. The Nursery is capable of servicing clients with high quality seedlings with a full array of morphological and physiological characteristics as required.

Also important to the future success of the agency is the ability to develop new stock types as the need arises. The case in point this year is the development of larger sizes utilizing the single cropping system. This allows Pineland to produce larger stock than is the norm in the double cropping system. Other trials on new types of containerized red pine, white pine, poplar and aspen are ongoing. The establishment of a hybrid poplar program addresses the need for fast growing, high quality wood in close proximity to the customer's mill.

The reliability of Pineland Forest Nursery to meet production targets is a major consideration in the competitive analysis. Clients that request seedlings depend on those seedlings to carry out reforestation activities when the seedlings are delivered. Clients incur significant expense preparing planting sites and entering into contractual agreements for the planting. When the total seedling requirement is not fulfilled, two substantial expenses are incurred by the client, that of breaking contractual agreement for planting and that of leaving sites for an additional year before planting, possibly requiring re-treatment.

Reliability is a key factor in clients assessing the suppliers of seedlings. Pineland Forest Nursery has an excellent record of meeting seedling requirements. Reliability, quality and service are Pineland's strongest marketing tools.

CRITICAL SUCCESS FACTORS

Pineland identified four critical success factors with specific objectives for each, to ensure the long-term success of the Agency. Achievements during the 2000/01 fiscal year were as follows:

1. To run operations in a business-like manner and become financially self-sustaining:

1.1 Achieve financial targets as per pro-forma financial statements: (000's)

1.1.1 The original net income target for 2000/01 was $17, revised to ($51). Actual net loss for the fiscal year was ($47).

1.1.2 The original capital expenditure projection for 2000/01 was $269. The actual capital expenditure for the fiscal year was $213.

1.2 Increase seedling revenue.

1.2.1 The original revenue target for 2000/01 was $3,608, revised to $3,642. The actual revenue for the fiscal year was $3,528.

2. To maintain a reliable service that provides quality products and demonstrates integrity on a continuous basis.

2.1 Ensure that clients are satisfied with the services provided at Pineland and not more than one complaint is received.

2.1.1 There were no serious complaints during the year.

2.2 Ensure seedlings meet quality standards and targets.

2.2.1 The overwinter crop achieved 97.6% quality and +1.9% of target. The original goal was 95% quality, +/- 5% of target.

2.2.2 The current crop achieved 99.7% quality and +3.6% of target. The goal was 95% quality, +/- 5% target.

2.3 Increase number of products available to clients.

2.3.1 One new product was added, that has gained acceptance with our clients.

2.4 Increase the number of cones processed to 3,100 hectolitres.

2.4.1 3,592 hectolitres of cones were processed.

3. Retain existing client base and their associated volumes.

3.1 Continue meeting contractual quantities and quality at competitive prices.

3.1.1 Quality and quantity volumes were maintained with all clients.

3.2 Add clients to the client base.

3.2.1 One client was added to the base and all other clients were maintained.

3.3 Provide exposure for Pineland in the market place.

3.3.1 Staff attended five events that exposed Pineland, its products and services.

3.3.2 Pineland staff initiated on-site field assessments with most of our major clients.

3.3.3 Clients have access to quality control data on a regular basis via e-mail, regular mail or personal visits either to our site or theirs.

4. Ensure that the organization is adequately prepared to meet the challenges ahead.

4.1 Ensure key personnel have the skills required to perform required duties.

4.1.1 Staff are trained and motivated through regular staff meetings at different levels and they attend outside training courses.

4.2 Develop marketing and after sales service.

4.2.1 One staff person is responsible for marketing and client relations, with full support from all other key staff.

4.3 Involve employees in developing Agency Policy.

4.3.1 The policy review committee reviewed Pineland's policies and a policy manual was completed in the year.

FINANCIAL RESULTS

Summary
(000's)

	Actual 2001	Budget	Budget Variance	Actual 2000	Actual 2000 Variance
Total Revenue	**$3,528**	**$3,642**	**$ (114)**	**$4,247**	**$ (719)**
Operating Expenditures	3,023	3,139	(115)	3,567	(544)
Amortization	380	380	0	414	(34)
Interest Operating Loan	153	155	(2)	125	28
Interest Capital Loan	19	19	0	22	(3)
Total Expenditures	**3,575**	**3,693**	**(118)**	**4,128**	**(553)**
Net Earnings	**(47)**	**(51)**	**4**	**119**	**(166)**

Actual 2001 versus Budget

Total Revenues were $114 (3%) under Budget due to reduced volumes in the Overwinter 2000 Crop and later seeding of the Overwinter 2001 Crop which was partly offset by a price increase in the Current 2001 crop. With larger trees (higher value) being grown in the Current Crop the greenhouses are not available for double cropping the early seeded Overwinter Crop.

Total Expenditures were $118 (3%) under Budget due to lower than anticipated expenditures in all programs except the Overwinter, which was $42 (3%) over budget. This is largely the result of a reduction in the Budgeted Pension Payable of $96.

Net Earnings were $4 over Budget due largely to the reduction in the Budgeted Pension Payable of $96, which was offset by lower revenue.

Actual 2001 versus 2000

Total revenues were $719 (17%) and total expenditures were $553 (13%) less than the same period last year largely due to a change in the method of accounting for crops in progress at March 31. In years prior to 1999-2000, unbilled costs related to these crops were recorded as work-in-process inventory. Production expenses for the year were reduced by the amount of work-in-process and were then expensed in the following year. In 1999-2000, the method of accounting for these crops was changed to recognize revenue on a percentage of completion basis whereby any excess of revenue on a percentage of completion basis over amounts billed is recorded as unbilled revenue. This method more fairly reflects the Nursery's financial results and is consistent with accounting procedures of other businesses in the same industry. As a result of this change, both the revenues and expenses of 1999-2000 are increased relative to 2000-2001 as:

- revenue associated with the March 31, 1999 work-in-process and March 31, 2000 unbilled revenue is recorded as revenue in 1999-2000
- expenses for 1999-2000 include both the costs recorded as work-in-process at March 31, 1999 and costs relating to unbilled revenue at March 31, 2000

This change does not, however, have any relative effect on net income. Net earnings were $166 less than the same period last year due largely to contract price reductions in 1999, which impacted revenue in the current year.

Pineland
Forest Nursery

MANAGEMENT REPORT

The accompanying financial statements are the responsibility of the management of Pineland Forest Nursery and have been prepared in accordance with generally accepted accounting principles. In management's opinion the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data up to May 24, 2001.

Management maintains internal controls to properly safeguard the assets and to provide reasonable assurance that the books and records from which the financial statements are derived accurately reflect all transactions and that established policies and procedures are followed.

The responsibility of the Auditor is to express an independent opinion on whether the financial statements of Pineland Forest Nursery are fairly represented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

Ivan J. Balenovic
Chief Executive Officer

May 24, 2001

PINELAND FOREST NURSERY

Financial Statements
Year Ended March 31, 2001

PINELAND FOREST NURSERY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

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MARCH 31, 2001

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AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of Pineland Forest Nursery, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2001 and the statements of earnings and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2001 and the results of its operations and cash flow for the year then ended in accordance with generally accepted accounting principles.

Magnus & Buffie

May 24, 2001

CHARTERED ACCOUNTANTS

PINELAND FOREST NURSERY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

BALANCE SHEET
(in thousands)
MARCH 31, 2001

	2001	2000
ASSETS		
CURRENT ASSETS		
Cash	$ 6	$ 4
Receivables (Note 3)	197	192
Term deposits (Note 8)	301	-
Unbilled revenue	194	221
Inventory	149	157
Prepaids	32	31
	879	605
RECEIVABLE FROM PROVINCE OF MANITOBA (Notes 4 and 9)	187	249
TERM DEPOSITS (Note 8)	-	284
CAPITAL ASSETS (Note 5)	2,854	3,021
	$ 3,920	$ 4,159
LIABILITIES		
CURRENT LIABILITIES		
Working capital payable (Note 6)	$ 2,063	$ 2,041
Accounts payable and accrued	195	215
Pension payable (Note 8)	330	-
Current portion of long term debt	39	69
	2,627	2,325
LONG TERM DEBT (Note 7)	141	180
PENSION BENEFITS (Note 8)	-	455
SEVERANCE PAY BENEFITS (Note 9)	109	109
	2,877	3,069
EQUITY		
CONTRIBUTED EQUITY (Note 10)	356	356
RETAINED EARNINGS	687	734
	1,043	1,090
	$ 3,920	$ 4,159

PINELAND FOREST NURSERY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

STATEMENT OF EARNINGS AND RETAINED EARNINGS
(in thousands)
FOR THE YEAR ENDED MARCH 31, 2001

	2001	2000
REVENUE		
Private Sector		
Overwinter	$ 1,321	$ 1,815
Current	559	741
Bareroot	-	3
Seed services	181	172
Tree improvement	43	-
Poplar program	6	30
Other	15	28
	2,125	2,789
Province of Manitoba		
Overwinter	964	971
Current	298	87
Bareroot	76	350
Seed services	14	1
Tree improvement	14	4
Other	20	33
	1,386	1,446
Term deposit interest	17	12
	3,528	4,247
EXPENSES		
Salaries and benefits	1,668	2,036
Supplies	440	489
Natural gas and hydro	368	422
Repairs and maintenance	188	313
Property taxes and insurance	73	73
Office	97	70
Departmental services and professional fees	41	53
Freight	80	49
Travel	48	37
Marketing	18	18
Miscellaneous	2	7
Amortization	380	414
Interest - operating loan	153	125
Interest - capital loan	19	22
	3,575	4,128
NET (LOSS) EARNINGS FOR THE YEAR	(47)	119
RETAINED EARNINGS, beginning of year	734	615
RETAINED EARNINGS, end of year	$ 687	$ 734

PINELAND FOREST NURSERY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

STATEMENT OF CASH FLOW
(in thousands)
FOR THE YEAR ENDED MARCH 31, 2001

	2001	2000
CASH FLOW FROM (USED IN)		
OPERATING ACTIVITIES		
Net (loss) earnings for the year	$ (47)	$ 119
Adjustment for		
Amortization	380	414
	333	533
Changes in non-cash working capital balances		
Receivables	(5)	48
Term deposits	(301)	-
Unbilled revenue	27	(3)
Inventory	8	(64)
Prepaids	(1)	12
Accounts payable and accrued	(20)	(12)
Pension payable	330	-
	371	514
FINANCING ACTIVITIES		
Change in pension benefits	(455)	121
Change in severance pay benefits	-	(14)
Long term debt repayment	(69)	-
	(524)	107
INVESTING ACTIVITIES		
Acquisition of capital assets	(213)	(310)
Change in term deposits	284	(12)
Change in receivable from Province of Manitoba	62	-
	133	(322)
CHANGE IN CASH AND EQUIVALENTS	(20)	299
CASH AND EQUIVALENTS, beginning of year	(2,037)	(2,336)
CASH AND EQUIVALENTS, end of year (Note 11)	$ (2,057)	$ (2,037)

NOTES TO FINANCIAL STATEMENTS
(in thousands)
MARCH 31, 2001

1. NATURE OF ORGANIZATION

In 1953, Pineland Provincial Forest Nursery was established to meet all the nursery stock requirements of the province at one location. Prior to 1953 there were several small nurseries located throughout the province.

Effective April 1, 1995, Pineland Forest Nursery was designated as a Special Operating Agency under The Special Operating Agencies Financing Authority Act, Cap. S185, C.C.S.M., and operates under a charter approved by the Lieutenant Governor in Council.

Pineland Forest Nursery is financed through the Special Operating Agencies Financing Authority (Financing Authority). The Financing Authority has the mandate to hold and acquire assets required for and resulting from Agency operations.

A Management Agreement between the Financing Authority and the Minister of Conservation assigns responsibility to the Agency to manage and account for the agency related assets and operations on behalf of the Financing Authority.

Pineland Forest Nursery continues to be part of Manitoba Conservation under the general direction of the Assistant Deputy Minister of Conservation and ultimately the policy direction of the Deputy Minister and the Minister.

Pineland Forest Nursery remains bound by relevant legislation and regulations. It is also bound by administrative policy, except where specific exemptions have been provided for in its charter in order to meet business objectives.

Pineland Forest Nursery is economically dependent on the Province of Manitoba, because it derives a significant portion of its revenue from the Province and all of its financing requirements through the Financing Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Reporting

The financial statements of the Agency have been prepared in accordance with generally accepted accounting principles. The significant accounting policies are summarized as follows:

(a) Inventory

Supplies inventory is valued at the lower of cost and replacement cost.

(b) Capital Assets

Capital assets are amortized over their estimated useful lives as follows:

	Rate	Method
Greenhouses, coldframes, freezers, holding area, minor service buildings, major pumphouse, major service buildings, propane conversion	10%	Declining balance
Equipment	20%-30%	Declining balance

(c) Revenue Recognition

Revenues are recognized on a percentage of completion basis. Any excess of revenue recorded on a percentage of completion basis over amounts billed is recorded as unbilled revenue.

NOTES TO FINANCIAL STATEMENTS
(in thousands)
MARCH 31, 2001

3. RECEIVABLES

	2001	2000
Province of Manitoba	$ -	$ 36
Other	197	156
	$ 197	$ 192

4. RECEIVABLE FROM PROVINCE OF MANITOBA

The receivable from the Province of Manitoba is for vacation entitlements earned by the employees of the Agency prior to creation of the Special Operating Agency, for severance pay benefits prior to April 1, 1998 and for adjustments to the pension benefits liability for which the Province has accepted responsibility (Note 8). The balance is comprised of:

	2001	2000
Vacation entitlements	$ 99	$ 99
Severance pay benefits	88	88
Pension benefits	-	62
	$ 187	$ 249

5. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value 2001	Net Book Value 2000
Buildings	$ 3,681	$ 1,435	$ 2,246	$ 2,423
Equipment	1,188	580	608	598
	$ 4,869	$ 2,015	$ 2,854	$ 3,021

6. WORKING CAPITAL PAYABLE

The Financing Authority has provided the Agency with an authorized line of working capital of $3,000 of which $2,063 (2000 - $2,041) was advanced at March 31, 2001.

NOTES TO FINANCIAL STATEMENTS
(in thousands)
MARCH 31, 2001

7. LONG TERM DEBT

The Financing Authority assumed a loan payable to the Province of Manitoba on behalf of the Agency as specified in the Management Agreement. The loan payable was issued for $356 at an interest rate of 9% repayable by the Agency in annual instalments of $55, principal and interest maturing in 2005.

Principal repayments in each of the next four years are as follows:

Year	Amount
2002	$ 39
2003	43
2004	47
2005	51
	$ 180

8. PENSION BENEFITS

Employees of the Agency are eligible for pension benefits in accordance with the provisions of The Civil Service Superannuation Act. The Agency has recorded an obligation for the pension benefits earned by its employees from the date of designation as a Special Operating Agency (SOA). The methodology for calculating the liability has been determined in conjunction with the Province of Manitoba (Province), which accepts responsibility for pension liability for prior service, as well as as for any variance resulting from the calculation.

The Agency has invested funds in term deposits with the intention that these funds will be used to meet their pension obligations.

An actuarial valuation report of the Agency's pension liability to its employees from the date of designation as an SOA was recently completed. The report calculated the pension liability as at March 31, 2000 and provided a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarial liability has been calculated on an indexed basis to be $392 as at March 31, 2001 (2000 - $455).

As at March 31, 2001, the Province has assumed responsibility for administering the SOA's pension liabilities. Accordingly, the pension liability net of the pension receivable from the Province of $62 was reclassified as a current liability. The Agency will transfer funds equal to the net amount to the Province during the year ending March 31, 2002.

NOTES TO FINANCIAL STATEMENTS
(in thousands)
MARCH 31, 2001

9. SEVERANCE PAY BENEFITS

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The estimate of the liability was based upon the method of calculation set by the Province of Manitoba.

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees to March 31, 1998. Accordingly, the opening severance pay liability as at April 1, 1998 calculated at $142 was completely offset by a receivable from the Province. There are no fixed terms for payment.

An actuarial valuation report of the Agency's severance liability as at March 31, 2000 was recently completed. The liability as at March 31, 2000 was restated from $163 to $109 and the receivable from the Province was restated from $142 to $88 as a result of the actuarial valuation. There was no effect on the severance benefit expense for the year ended March 31, 2000. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarial liability has been calculated to be $109 as at March 31, 2001.

10. CONTRIBUTED EQUITY

The Special Operating Agencies Financing Authority and the Province of Manitoba entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority of inventory and capital assets valued at $712 required for the continuing operations of Pineland Forest Nursery as at March 31, 1995. The Agency is responsible to repay the Special Operating Agencies Financing Authority the debt portion, in the amount of $356 (being 1/2 of the value of the assets) and to record the remainder as Manitoba's equity in the Financing Authority as related to the Agency's operations.

11. CASH AND EQUIVALENTS

	2001	2000
Cash	$ 6	$ 4
Working capital payable	(2,063)	(2,041)
	$ (2,057)	$ (2,037)

SCHEDULE OF PUBLIC SECTOR COMPENSATION DISCLOSURE
(in thousands)
FOR THE YEAR ENDED MARCH 31, 2001

The Public Sector Compensation Disclosure Act requires all publicly funded bodies to disclose compensation to any employee or board member when such compensation exceeds $50 per annum. This information follows:

EMPLOYEE	TITLE	COMPENSATION 2001	2000
Ivan Balenovic	Chief Executive Officer	$ 75	$ 69

PINELAND FOREST NURSERY

Appendices

07-May-01

PINELAND FOREST NURSERY

ORGANIZATION CHART